

1 **Q. Reference Evidence of Laurence Booth dated September 25, 2018**

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3 **Page 47, lines 8-16: Please explain in more detail the basis for Dr. Booth's**  
4 **Operation Twist adjustment of .80% to the forecast LTC yield and why he**  
5 **selected the forecast difference between US and Canadian LTC yields as the**  
6 **appropriate adjustment.**

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8 A. Currently the forecast LTC yield is 3.0%, which is 0.80% below Dr. Booth's 3.8%  
9 trigger for changing the allowed ROE. However, this is arithmetic. Originally, Dr.  
10 Booth's 0.80% Operation Twist adjustment was derived in 2012, where he stated  
11 (page 51

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13 *"The implication of the change in yields over 2010 and 2011 is that after the*  
14 *Federal Reserve embarked on Operation Twist to twist the US yield curve*  
15 *and lower the yield on long term US government bonds, there was a direct*  
16 *effect in Canada. Moreover, this affected both the government and to a*  
17 *lesser extent the corporate bond market, since yields on both came down*  
18 *after September 2011. However, yields in the preferred share market did not*  
19 *come down to the same degree causing the preferred share yield spread to*  
20 *widen. This is probably because preferred shares are unattractive to foreign*  
21 *investors, since the dividends attract with-holding taxes. Regardless the*  
22 *preferred share yield spread has increased from 130 bps over long Canada*  
23 *bonds to 250, whereas the utility spread has only increased from 145 to 160*  
24 *bps and the generic A spread from 172 to 180bps. I would therefore place*  
25 *the "Operation Twist" impact on the Canadian bond market as*  
26 *approximately 80 bps, which is approximately the spread increase since*  
27 *September 2011."*

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29 However, Datastream no longer reports the TSX preferred share yield, which itself  
30 has become less reliable due to call options embedded in many preferred shares.  
31 This is why Dr. Booth referred to the actions of other analysts reporting their base  
32 risk free rates in the Fernandez survey and the much larger difference between LTC  
33 and US Treasury yields versus A corporate yields in the US and Canada.

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35 Most analysts accept that current LTC yields have been depressed by factors  
36 specific to the government bond market in Canada.